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DRAFT/25X1A9a/gmt (15 April 1959)

MEMORANDUM FOR: Deputy Comptroller
Comptroller

FROM : Chief, Technical Accounting Staff

SUBJECT : Alternative Procedure for Financing Confidential Funds Operations

REFERENCE : Memorandum to Director of CIG from
General Counsel, dated 19 November 1946,
Subject: Treatment of Special Funds
Overseas.

I. Problem

To determine advisability of changing the basis currently used in financing confidential funds operations through DCI certifications.

II. Facts Bearing on the Problem

- a. The present concept for financing or providing funds for transactions processed through the Finance Division involves the utilization of a number of Treasury established imprest funds (authorized in the amount of

25X1A1a [redacted] at the present time) for which designated Agency employees are individually accountable. These imprest funds are the principal source of funds for day to day operations. Such funds are used either (1)

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[redacted]

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Reimbursements to these imprest funds are made from funds appropriated for the use of the Agency on the basis of Agent Cashier reimbursement vouchers certified by the DCI. As a practicable matter insofar as the Agency accounting records are concerned, disbursements from these imprest funds are recorded as though the Agency, rather than individual employees, was accountable for them, i.e., cash is disbursed from such funds with contra charges to other Agency asset, liability, or expense accounts, as appropriate, without recording any liability to the Agent Cashiers for funds theoretically obtained from them. Individual work sheet records are maintained for each Agent Cashier showing the disposition of funds for which he is accountable as a basis for claiming reimbursements for funds used by DCI vouchers.

- b. An alternative to the present procedure for funding confidential fund operations is available which would eliminate the disadvantages of the present procedure. This alternative is described below:

- (1) Establish a single fund for which the Agency would be accountable, or if the Department of the Treasury would prefer, for which a designated Agency official and an alternate would be named accountable.
- (2) Fix the amount of this single fund to provide

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ample funds to finance confidential funds operations between replenishment dates.

- (3) Operate the single fund on a revolving or imprest basis.
- (4) Replenish the single fund through the issuance of vouchers bearing DCI certifications and supported by recorded budgetary expenditures (rather than based on cash disbursements and transfers between bank accounts as at present), such replenishment to be monthly based upon tabulations of expenditures charged to confidential fund allotments, less identified vouchered fund disbursements included therein; however, more frequent replenishment could be made if deemed expedient to minimize the size of the single fund needed or whenever abnormal financing operations so require.

III. Discussion:

a. Disadvantages of present system are:

- (1) The vouchers approved by the DCI for the disbursement of appropriated funds representing reimbursements to Agent Cashiers indicate that the vouchers cover expenditures properly chargeable to fiscal year appropriations listed on the vouchers. In most cases there is no direct relationship between such disbursements and either the recordation of budgetary expenditures by the Agency or the actual

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disbursement of funds by the Agency. In fact, the reimbursements in many cases simply replace imprest funds transferred to covert bank accounts, established Agency funding mechanisms, headquarters' cash on hand, field stations, etc., for subsequent disbursement by the Agency. This practice, therefore, poses a question as to the propriety of requesting the DCI to certify that the vouchers cover "expenditures" when, in fact, the funds in many cases continue to be available to the Agency for disbursement. In this connection paragraphs 5, 6 and 7 of reference show that certain aspects of the present practice were discussed with officials of the General Accounting Office for their information. "Reference also indicates that no official ruling was obtained. Although GAO officials in effect acquiesced at that time to the procedures being followed, reference indicates that the attitude of the GAO officials, while extremely friendly, showed that an official ruling if requested might well be adverse to the needs of CIG.

- (2) Funds obtained on the basis of DCI certification may ultimately be "expended" by the Agency against a different appropriation than was indicated on the face of the voucher. In this connection, as of 30 September each year, the cumulative amount of

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funds withdrawn on the basis of DCI certifications in excess of expenditures against prior year appropriations is charged against the Finance Division authorization to draw down funds against the current year appropriation. Consequently data concerning the use of DCI authority with respect to any particular year's appropriation must be based on the actual use of the funds obtained rather than on a summary of DCI vouchers which on their faces were identified as chargeable to particular appropriations.

(3) The individuals who are personally accountable for the several imprest funds which have been established must maintain work sheet records reflecting imprest fund disbursements made for use as a basis for the submission of reimbursement vouchers. Such work sheets are not an integral part of the Agency's accounting system, but are merely based on an analysis of transactions recorded in the accounting system.

(4) Reimbursement vouchers are required under the present system each time the funds of an individual Agent Cashier need replenishment, whereas under alternative procedures for consideration this would not be required.

b. The primary advantage of the present system is the relatively smaller total amount overtly shown as Agent

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Cashier fund requirements of the Agency, namely [REDACTED]

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[REDACTED] as opposed to the substantially larger amount

which would be evidenced overtly under the alternative

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procedure, i.e., estimated at perhaps [REDACTED] The

reason for this increased fund requirement may be illus-

trated by the facts that as of 30 June 1958 the Agency

had drawn approximately [REDACTED] more by means of

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DCI certifications than it had recorded as budgetary

expenditures from appropriated funds.

- c. The principal strengths of the alternative system are in the areas cited in paragraph IIIa above as disadvantages of the present system, namely:

- (1) DCI certifications would be for amounts actually recorded by the Agency as "expended".
- (2) DCI certifications by appropriation years would equate with amounts recorded as budgetary expenditures for those years; thus, in discussing the use of DCI authority, the criteria of such use would be the actual use and not a substitute basis as is now the case.
- (3) The records on which reimbursement vouchers would be based would be an integral part of the Agency's official accounting system.
- (4) In pulling all expenditures for a particular period for which DCI certification is required into a single submission to the DCI, the work of multiple

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submissions would be reduced and at the same time the DCI could be given a better overall picture of the full nature and extent to which he is using his authority.

- d. The chief disadvantages of the proposed system relates to the problem of establishing a single fund for which the Agency rather than individuals would be accountable, and to the larger amount overtly shown as Agent Cashier requirements of the Agency. Any change in present practice would undoubtedly necessitate new discussions with one or more outside Agencies (Treasury, Budget Bureau, and General Accounting Office) concerning the problem. This would require detailed disclosure of the present practice, and to what we consider undesirable about it, as a basis for seeking to improve the procedures involved. In the broad view, an endeavor on our part to initiate an improvement in procedures in this area should be constructively received by the Agencies concerned and we ought not to "lose" anything in the event an alternative solution is not found. On the other hand, however, consideration should be given to what "risks" may be involved in opening up for discussion an area about which no one outside the Agency is currently asking questions. It should be pointed out in this connection that the substance of our present practice could be deduced by analysis of our report to the

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Bureau of the Budget on the status of our appropriations.

In that report we show the amounts of "funds available" for the several appropriations; the aggregate of such funds available includes unexpended Finance Division resources and is substantially in excess of funds available to the Agency on deposit with the U. S. Treasury. A close analysis of the information available to the Bureau of the Budget would reveal that the Agency has appropriated funds still available for use which have been withdrawn from the Treasury. With respect to the increased amount to be overtly identified as Agent Cashier funds, in actuality the Agency has the use of such larger amount under the present procedure.

- e. The alternative would not disturb the present arrangement for disbursements by Fiscal not requiring DCI certification but chargeable to confidential funds allotments. Present procedures require that expenditures from such disbursements be coded to indicate their source. This code would serve as a basis for excluding such expenditures from the expenditure run for which reimbursements would be claimed based upon DCI certification. The present arrangement for Finance Division-initiated Treasury checks ultimately requiring DCI certification also could be continued; such checks in concept would without exception be concurrently recorded as expenditures against confidential funds

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allotments. The sum of such checks issued during a reimbursement period would be deducted from the amount of the total expenditure run in computing the amount of the periodic reimbursement checks. DCI certification of the separately issued checks could be obtained either by a continuation of the present procedure (monthly certification of all such checks issued during the month) or by having the supporting vouchers for such checks incorporated by reference in appropriate form in the monthly or periodic reimbursement voucher for expenditures recorded during the month. In any event the end result of the foregoing would be that the DCI certifications for a given month, or other period of time, would coincide exactly in amount and by fiscal years with net budgetary expenditures recorded during same period of time.

- f. Under the alternative method an amount, as of the effective date of the change, equal to funds obtained by DCI certification in excess of related budgetary expenditures would "in substance" be returned to the Fiscal Division as a reversal of funds obtained on the basis of DCI certifications.

IV. Conclusion

- a. Although the foregoing is admittedly general and not complete in every detail, it is nevertheless believed sufficient for discussion purposes. If the general

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concept of a single fund to be replenished on the basis of recorded budgetary expenditures is considered to have merit and feasible of accomplishment, more detailed consideration will be given as to ways and means to obtain the fund. The advantages of the alternative procedure are believed clearly sufficient to justify full consideration of all aspects of this problem with the view toward the Agency's obtaining them.

- b. As another alternative procedure for consideration for financing confidential fund operations, it might be possible to make arrangements with Budget Bureau and GAO sanction to permit the Fiscal Division to provide a "continuing" advance from current year appropriated funds to the Finance Division for the additional amount needed. The real substance of this alternative is that appropriated funds in effect would be held outside

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fact that we are accomplishing this result under present practice through having the DCI certify the disbursements as "expenditures", it is possible that we could obtain permission to do the same thing on a direct basis as an approved exception to normal Government procedures. The amount of any such "Continuing" would be recorded by the Fiscal Division as an advance to the Finance Division and would be

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recorded by the Finance Division as a liability to the Fiscal Division. Approximately this same amount under present procedures is carried by the Fiscal Division as a debit and by the Finance Division as a credit in account No. 136 - Disbursements of Appropriated Funds Chargeable to Confidential Funds Allotments - DCI Certification. As a further adaptation of this alternative, if it is felt that the Agency's minimum balance of available funds as of any date by reason of the contingency reserve, "M" account and unexpended appropriations is of sufficient size, it is conceivable that the above suggested technique could be used for an additional [REDACTED] so that the present Agent Cashier imprest funds could be entirely returned to the Treasury.

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